Financial Statements
June 30, 2013 and 2012

North Dakota Development Fund, Inc.

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Governor of North Dakota
The Legislative Assembly

Board of Directors
North Dakota Development Fund, Inc.
Bismarck, North Dakota

Report on the Financial Statements
We have audited the accompanying financial statements of North Dakota Development Fund, Inc., a component unit of the state of North Dakota, as of June 30, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Development Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Dakota Development Fund, Inc.as of June 30, 2013 and 2012, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements of the North Dakota Development Fund, Inc. are intended to present the financial position and the change in financial position of only that portion that is attributable to the transactions of the North Dakota Development Fund, Inc.. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2013, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying supplementary information shown on pages 22 through 31 are presented for purposes of additional analysis and are not a required part of the financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated November 1, 2013 on our consideration of North Dakota Development Fund, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That reports is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Dakota Development Fund, Inc.'s internal control over financial reporting and compliance.

Eide Bailly LLP

Bismarck, North Dakota
November 1, 2013

The discussion and analysis of the financial performance of the North Dakota Development Fund that follows is meant to provide additional insight into the Development Fund's activities for the year ended June 30, 2013. Please read it in conjunction with the Development Fund's financial statements and footnotes, which are presented within this report.

Financial Highlights

Total revenue decreased by $142,994 (16.1%) to $744,402. Operating revenues decreased by $100,373 (13.70%) to $734,719. Cash flow decreased by $1,772,652 (27.97%) to $4,564,081. The Fund collected $3,809,744 in principal payments in 2013, which was a decrease of $1,022,375 (21.25%) from 2012. The decrease in total and operating revenue is attributable to a decrease in interest earned on deposits at the Bank of North Dakota along with a decrease in the dividend income received on the equity investments of the Fund. The decrease in total principal funds collected was attributable to reduced payouts of loans on the books of the North Dakota Development Fund as compared to 2012.

The Fund received $40,624 in dividend payments in 2013 from equity investments made, a decrease from the $162,738 received in dividend payments in 2012. The decrease was attributable to requests received from companies to extend their dividend payment due in 2013 to 2014.

General & Administrative expense decreased by $204 (.000485%) from $420,867 in 2012 to $420,663 in 2013. Administrative expense stayed stable from 2012 to 2013.

Operating Income (loss) before non-operating revenues & expenses increased by $411,488 from ($234,625) in 2012 to $176,863 in 2013. The increase in the operating income (loss) in 2013 was attributable to a decrease in reserve for bad debt expense and a decrease in General & Administrative expense in 2013 as compared to 2012.

Interest income on deposits decreased by $42,621 (81.50%) from $52,304 received in 2012 to $9,683 received in 2013. The decrease was the result of decreased interest rates received on investments being made at the Bank of North Dakota.

The change in net assets decreased by $631,133 from $817,679 in 2012 to $186,546 in 2013. The decrease was attributable to the North Dakota Development Fund receiving an appropriation from the North Dakota Legislature in the amount of $1 million dollars for a new funding program called the Small Business Technology Program in July of 2011 and also from reduced deposit income received from the Bank of North Dakota on funds invested in the Banks investment portfolio.

Net assets increased by $186,546 from $23,959,773 in 2012 to $24,146,319 in 2013. The increase was attributable to the reduced amount that was reserved to bad debt expense in 2013.

Noncurrent net assets (excluding equipment) decreased by $2,808,251 from $9,382,144 in 2012 to $6,573,893 in 2013. The noncurrent assets consist of the Fund's loan and equity investments. The equity investments made decreased by $1,298,448 from 2012 to 2013. The equity investments that were charged off during 2013 were $250,000 as compared to $662,324 in 2012. The loan investments made decreased by $736,637 from $17,978,611 in 2012 to $17,241,974 in 2013. The loan investments that were charged off during 2013 were $195,157 as compared to $280,547 in 2012. The decrease was attributable to the decline in loan and equity requests the Fund received in 2013 along with payouts being made on the equity investments along with the regular pay down of loans.

Interest receivable on deposits & loans decreased by ($12,791) to $57,216. The receivable remained stable in 2013 due to the continued monitoring of past due accounts and not having to put additional accounts on non-accrual.

Current portion of loans receivable increased from $3,067,149 in 2012 to $4,150,406 in 2013. The increase was attributable to additional loans having payments due in the upcoming year along with loans maturing and lines of credit coming due.

Cash & cash equivalents increased by $2,907,291 (25%) to $14,610,451 (cash balance is before loan and investment commitments). The increase in Cash & Cash Equivalents was attributable to less dollars being invested in certificate of deposits due to the reduction in CD rates and wanting to put the funds to work in "Primary Sector" businesses in the State of North Dakota. The investment account (which includes certificate of deposit investments) decreased by $1,000,966 from $1,000,966 in 2012 to $0.00 in 2013. Due to the lower rates of interest that could be earned, all certificates of deposit that matured were deposited into the Fund's saving accounts at the Bank of North Dakota.

The Fund invests their excess funds into longer term deposits for a higher rate of return to coincide with the funding commitments made by the Fund to companies for loans and equity investments, which are not required to be funded in the short-term. But, due to the low rate of interest being offered on certificate of deposits on a longer term, the North Dakota Development Fund has kept the excess funding liquid in saving accounts and putting the funds to work in loan and equity investments to "Primary Sector" businesses in the State of North Dakota.

14 projects were funded totaling $2,854,500.

Required Financial Statements

The discussion and analysis are intended to serve as an introduction to the Development Fund's financial statements. The financial statements of the Development Fund provide accounting information similar to that of many other business entities. The Balance Sheet summarizes the assets and liabilities, with the difference between the two reported as net position. It also serves as a basis for analysis of the soundness and liquidity of the Development Fund. The statement of Revenues, Expenses and Changes in Net position summarize the Development Fund's operating performance for the year. The statements of Cash Flows summarize the flow of cash through the Development Fund as it conducts its business.

Condensed Balance Sheet
June 30, 2013 and 2012

Assets	2013	2012	2011
Current assets	$ 18,818,073	$ 15,841,282	$ 17,207,305
Noncurrent assets	6,591,899	9,382,144	7,234,496
Total assets	$ 25,409,972	$ 25,223,426	$ 24,441,801
Net Assets			
Current liabilities	$ 1,263,653	$ 1,263,653	$ 1,363,100
Unrestricted	24,146,319	23,959,773	23,078,701
Total net assets	24,146,319	23,959,773	23,078,701
Total liabilities and net assets	$ 25,409,972	$ 25,223,426	$ 24,441,801

Cash and Cash Equivalents

Cash and cash equivalents consist of cash deposits with the Bank of North Dakota and are included in the current assets section of the balance sheet. Additional discussion of cash and cash equivalents can be found in Note 2 to the financial statements.

Equity Investments

Equity investments consist of capital investments in new or expanding primary sector businesses in or relocating to North Dakota and are included in noncurrent assets. Additional discussion of equity investments can be found in Notes 4 and 5 to the financial statements.

Loans Receivable

Loans receivable consist of loans to new or expanding primary sector businesses in or relocating to North Dakota and are included in current and noncurrent assets in the balance sheet. Additional analysis of loans receivable can be found in Notes 6 and 7.

Condensed Statement of Revenues, Expenses and Changes in Net position
for the Year Ended June 30, 2013 and 2012

	2013	2012	2011
Operating Revenues			
Interest income on loans	$ 630,443	$ 584,339	$ 660,760
Dividend income	40,624	162,738	149,679
Gain on sale of investment	10,330	8,214	-
Other	53,322	79,801	55,118
	734,719	835,092	865,557
Nonoperating Revenue			
State appropriations	-	1,000,000	-
Interest income on deposits	9,683	52,304	91,968
	9,683	1,052,304	91,968
Total Revenue	744,402	1,887,396	957,525
Operating Expenses			
General and administrative	420,663	420,867	386,615
Depreciation expense	2,378	-	766
Bad debt expense	134,815	648,850	1,121,985
	557,856	1,069,717	1,509,366
Change in Net Assets	186,546	817,679	(551,841)
Net Assets, Beginning of Year	23,959,773	23,142,094	23,630,542
Net Assets, End of Year	$ 24,146,319	$ 23,959,773	$ 23,078,701

Contacting the North Dakota Development Fund's Financial Management

The information in this report is intended to provide the reader with an overview of the Development Fund's accountability for those operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the North Dakota Development Fund, PO Box 2057, Bismarck, ND 58502-2057.

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	$ 14,610,451	$ 11,703,160
Interest receivable on deposits and loans	57,216	70,007
Investments	-	1,000,966
Current portion of loans receivable	4,150,406	3,067,149
Total Current Assets	18,818,073	15,841,282
Noncurrent Assets		
Loans receivable, net of current portion	6,573,893	9,382,144
Equipment, net	18,006	-
Total noncurrent assets	6,591,899	9,382,144
Total Assets	$ 25,409,972	$ 25,223,426
Liabilities and Net Assets		
Current Liabilities		
Accrued expenses	$ 13,653	$ 13,653
Due to state	1,250,000	1,250,000
Total Current Liabilities	1,263,653	1,263,653
Net Position		
Invested in capital assets	18,006	-
Unrestricted	24,128,313	23,959,773
Total Net Position	24,146,319	23,959,773
Total Liabilities and Net Position	$ 25,409,972	$ 25,223,426

	2013	2012
Operating Revenues		
Interest income on loans	$ 630,443	$ 584,339
Dividend income	40,624	162,738
Gain on sale of investment	10,330	8,214
Other	53,322	79,801
	734,719	835,092
Operating Expenses		
General and administrative	420,663	420,867
Depreciation expense	2,378	-
Bad debt expense	134,815	648,850
	557,856	1,069,717
Operating Income (Loss)	176,863	(234,625)
Nonoperating Revenue		
State appropriations	-	1,000,000
Interest income on deposits and investments	9,683	52,304
	9,683	1,052,304
Change in Net Position	186,546	817,679
Net Position, Beginning of Year	23,959,773	23,142,094
Net Position, End of Year	$ 24,146,319	$ 23,959,773

	2013	2012
Operating Activities		
Other receipts	$ 77,008	$ 226,504
Payments to suppliers	(420,663)	(420,867)
Net Cash used for Operating Activities	(343,655)	(194,363)
Investing Activities		
Interest received on cash and cash equivalents	690,516	672,985
Purchase of equipment	(20,385)	-
Purchase of equity investments	(210,330)	(991,668)
Proceeds from the sale of equity investments	9,935	617,218
Purchase of investments	-	(1,000,966)
Sale of investments	1,000,966	9,228,286
Disbursements of business loans	(2,029,500)	(7,110,816)
Principal payments received on business loans	3,809,744	4,832,119
Net Cash provided by Investing Activities	3,250,946	6,247,158
Non-Capital and Related Financing Activities		
Proceeds from state appropriations	-	1,000,000
Net Cash provided by Financing Activities	-	1,000,000
Net Change in Cash and Cash Equivalents	2,907,291	7,052,795
Cash and Cash Equivalents at Beginning of Year	11,703,160	4,650,365
Cash and Cash Equivalents at End of Year	$ 14,610,451	$ 11,703,160

	2013	2012
Reconciliation of Operating Income (Loss) to Net Cash		
Provided by Operating Activities		
Operating income (loss)	$ 176,863	$ (234,625)
Adjustments to reconcile operating		
loss to net cash from operating activities		
Gain on sale of investment	10,330	-
Depreciation	2,378	-
Gain on sale of investment	-	8,214
Allowance for doubtful loan receivables	(55,249)	274,400
Allowance for realized loss on investments	190,065	374,450
Reclassification of interest and dividend income	(668,042)	(616,802)
Net Cash used for Operating Activities	$ (343,655)	$ (194,363)
Supplemental Schedule of Noncash Activities		
Loans receivable written off	$ 195,157	$ 280,547
Equity investments written off	$ 250,000	$ 662,324

Note 1 - Summary of Significant Accounting Policies

Organization and Nature of Activities

The North Dakota Development Fund, Inc. (the Corporation) was established pursuant to Chapter 10-30.3 of the North Dakota Century Code as amended by the passage of Senate Bill 2058 during the 1991 legislative session. The Corporation is a statewide nonprofit development corporation with the authority to take equity positions in; to provide loans to; or to use other innovative financing mechanisms to provide capital for new or expanding primary sector businesses in North Dakota or relocating to North Dakota.

The Corporation uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain corporate functions or activities.

The following activities are used by the Corporation:

Development Fund

The Development Fund is used to account for fund investments, including equity positions, loans, loan guarantees, and other innovative financing mechanisms for new or expanding primary sector businesses in North Dakota or relocating to North Dakota.

Regional Rural Development Revolving Loan Fund

The Regional Rural Development Revolving Loan Fund is used to account for fund investments including equity positions, loans, loan guarantees, or debt financing on a matching basis to new or expanding primary sector businesses in rural areas.

Small Business Technology Investment Fund

The Small Business Technology Fund is used to provide matching investments to startup technology-based businesses.

Child Care Fund

The Child Care Fund is used to account for fund investments including loans and loan guarantees for new or expanding child care facilities in North Dakota.

The Corporation may form additional corporations, partnerships or other forms of business associations in order to further its mission.

The Director of the Department of Commerce Division of the Economic Development and Finance shall appoint the Chief Executive Officer of the Corporation. All investments, contracts, partnerships, limited liability companies, and business transactions of the Corporation are the responsibility of the Chief Executive Officer and the eight-member Board of Directors, who are appointed by the Governor.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, the Corporation should include all component units over which the Corporation exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or (3) the potential for the organization to provide specific financial benefits to, or impose specific burdens on the Corporation. GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, an Amendment of GASB Statement 14, further defined reporting units as a legally separate, tax exempt affiliated organization that meet all of the following criteria:

- The economic resources of the organization entirely or almost entirely directly benefit the Corporation or its constituents, and
- The Corporation or its component units are entitled to or can otherwise access, a majority of the economic resources of the organization, and
- The economic resources that the Corporation is entitled to, or can otherwise access, are significant to the Corporation.

Based upon criteria set forth in GASB No. 14 and No. 39, no organizations were determined to be part of the reporting entity. The Corporation is included as part of the primary government of the State of North Dakota's reporting entity.

Basis of Accounting

The Corporation is presented in the accompanying financial statements as a proprietary fund type – an enterprise fund.

An enterprise fund is used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent is that costs of providing goods or services to the general public or other funds on a continuing basis be financed or recovered primarily through user charges. The Corporation operates primarily with appropriations from the general fund.

As a proprietary fund type, the Corporation accounts for its transactions using the accrual basis of accounting. Revenues are recognized for its transactions when they are earned, and expenses are recognized when they are incurred.

Revenue and Expense Recognition

The Corporation presents its revenues and expenses as operating or non-operating based on recognition definitions from GASB Statement No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting. Operating activities are those activities that are necessary and essential to the mission of the Corporation. Operating revenues include all charges to customers, research contracts and grants, dividends earned on equity investments and interest earned on loans. Revenues from non-exchange transactions and state appropriations that represent subsidies or gifts to the Corporation, as well as investment income, are considered non-operating since these are either investing, capital or noncapital financing activities. Operating expenses are all expense transactions incurred other than those related to investing, capital or noncapital financing activities. Revenues received for capital financing activities, as well as related expenses, are considered neither operating nor non-operating activities and are presented after non-operating activities on the accompanying Statement of Revenues, Expenses, and Changes in Net position.

Concentration of Credit Risk

Loans receivable consist primarily of loans to new or expanding businesses in North Dakota or relocating businesses to North Dakota. The Corporation performs credit evaluations and maintains a security interest until related loans are collected.

Cash Equivalents

The Corporation considers all highly liquid investments purchased with maturity of three months or less to be cash equivalents.

Investments

Investments are reported at fair value. All investment income, including changes in the fair value of investments, is recognized in the statement of revenue, expenses, and changes in fund net position.

Equity Investments

The Corporation records its equity investments at cost adjusted for other than temporary impairment as determined by the Board of Directors. The other than temporary impairment of equity investments is included in fund equity. Realization of the carrying value of these investments is subject to future developments inherent in such investments (see Note 4).

Among the factors considered in determining whether an other than temporary impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Development Fund has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

Expense Allocation

The Development Fund pays all expenses of the Corporation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and valuation of equity investments.

Fixed Assets and Depreciation

All fixed assets are recorded in the accompanying financial statements at cost. Donated fixed assets are stated at fair market value at the time of donation. Equipment with a cost greater than $5,000 is capitalized and reported in the accompanying financial statements. The Corporation's fixed assets are being depreciated on a straight-line basis over estimated useful life of 3 years.

Loans

Loans are reported at their outstanding unpaid principal adjusted for charge-offs and the allowance for loan losses.

Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 90 to 120 days delinquent unless the credit is well secured and in process of collection. Loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is doubtful. All current year interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. All prior year interest accrued but not collected is charged-off against the allowance for loan losses. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The Corporation has determined that the accounting for nonrefundable fees and costs associated with originating or acquiring loans does not have a material effect on their financial statements. As such, these fees and costs have been recognized during the period they are collected and incurred, respectively.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to a recovery account.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management’s periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower’s ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. The Corporation separately identifies individual loans for impairment disclosures by rating them on a scale of 1 to 6.

Subsequent Events

The Development Fund has evaluated subsequent events through November 1, 2013, the date the financial statements were available to be issued.

Note 2 - Deposits

The Corporation is required to maintain its deposits at the Bank of North Dakota (a related party). As of June 30, 2013, the Corporation had the following:

	Fair Value	Less Than One Year
Cash		
Bank of North Dakota	$ 14,610,451	$ 14,610,451

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of investments will adversely affect the fair value of the investments.

Custodial and Concentration of Credit Risk

For deposits and investments, the custodial credit risk that, in the event of the failure of a depository financial institution, the Corporation will not be able to recover collateral securities that are in possession of an outside party. The Corporation's deposits are uncollateralized. All of the Corporation's deposits are with the Bank of North Dakota.

Note 3 - Interest Receivable

Interest receivable at June 30, 2013 and 2012 is as follows:

	2013	2012
Interest receivable from loans	$ 57,216	$ 70,007

Note 4 - Equity Investments

Equity investments in business concerns as of June 30, 2013 and 2012 are as follows:

	2013	2012
Development Fund	$ 1,851,100	$ 3,114,165
Regional Rural Development Revolving Loan Fund	1,129,270	1,164,653
	2,980,370	4,278,818
Valuation allowance - Other than temporary impairment	(2,980,370)	(4,278,818)
	$ -	$ -

Among the factors considered in determining whether an other than temporary impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Development Fund has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

The Corporation acquired its investment by direct purchase from the issuer under investment representations, and the Board of Directors valued the securities on the premise that they may not be sold without registration under the Securities Act of 1933. The price of securities purchased was determined by direct negotiation between the Corporation and the seller.

Note 5 - Equity Investments – Valuation Allowance

Changes in the valuation allowance for equity investments as of June 30, 2013 and 2012 are as follows:

	2013	2012
Balance, beginning of year	$ 4,278,818	$ 5,094,320
Provision for equity investment losses	188,972	374,450
Transfers	(1,237,420)	(527,628)
Equity investments charged off	(250,000)	(662,324)
Balance, end of year	$ 2,980,370	$ 4,278,818

Note 6 - Loans Receivable

Loans receivable at June 30, 2013 and 2012 are as follows:

	2013	2012
Development fund	$ 11,655,642	$ 11,755,681
Regional rural development revolving loan fund	4,659,860	5,428,604
Small business technology fund	50,000	-
Child care program	876,472	794,326
	17,241,974	17,978,611
Allowance for loan losses	(6,517,677)	(5,529,318)
Loans receivable, net of allowance for loan losses	10,724,297	12,449,293
Less: current portion of loans receivable	4,150,406	3,067,149
Loans receivable, net of current portion	$ 6,573,893	$ 9,382,144

Note 7 - Allowance for Loan Losses

Changes in the allowance for loan losses as of June 30, 2013 and 2012 are as follows:

	2013	2012
Balance, beginning of year	$ 5,529,318	$ 5,007,837
Provision for loan losses	(53,904)	274,400
Transfers	1,237,420	527,628
Loans charged off	(195,157)	(280,547)
Balance, end of year	$ 6,517,677	$ 5,529,318

Note 8 - Equipment

A statement of changes in fixed assets for the years ended June 30, 2013 and 2012 is as follows:

	Balance 06/30/12	Additions	Deletions	Balance 06/30/13
Furniture and equipment	$ 10,095	$ 20,384	$ -	$ 30,479
Computer software	78,188	-	-	78,188
Accumulated depreciation	(88,283)	(2,378)	-	(90,661)
	$ -	$ 18,006	$ -	$ 18,006

	Balance 06/30/11	Additions	Deletions	Balance 06/30/12
Furniture and equipment	$ 10,095	$ -	$ -	$ 10,095
Computer software	77,345	843	-	78,188
Accumulated depreciation	(87,440)	(843)	-	(88,283)
	$ -	$ -	$ -	$ -

Note 9 - Due to State

In 2011, the State of North Dakota appropriated funds to the North Dakota Development Fund to develop a child care loan program for the purpose of providing loans to new and expanding child care facilities within the state of North Dakota. The program was extended in the last legislative session through June 30, 2013, at which time it expires. On that date, the appropriation amount is set to be returned to the state. As of June 30, 2013 and 2012, $1,250,000 is due back to the state. On July 1, 2013 the State of North Dakota removed the due date and appropriated the $1,250,000 to the Development Fund.

Note 10 - State Appropriation

During the year ended June 30, 2012 the North Dakota Development Fund received $1,000,000 for a new funding program called the Small Business Technology Program.

Note 11 - Commitments and Contingencies

Development Fund

The Board of Directors has approved equity investments, loans, grants and guaranty of collections at June 30, 2013 for which funds have not been disbursed or written agreements entered into in the approximate amount of $1,386,703.

Regional Rural Development Revolving Loan Fund

The Board of Directors has approved equity investments, loans, and guaranty of collections at June 30, 2013 for which funds have not been disbursed or written agreements entered into in the approximate amount of $1,327,931.

Note 12 - Risk Management

North Dakota Development Fund, Inc. is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The following are funds/pools established by the State for risk management issues:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of $250,000 per person and $1,000,000 per occurrence.

The Corporation participates in the North Dakota Fire and Tornado Fund and the State Bonding Fund through the policies of the North Dakota Commerce Department. North Dakota Commerce Department pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a twelve-month period. The State Bonding Fund currently provides the Agency with blanket fidelity bond coverage in the amount of $100,000 per employee. The State Bonding Fund does not currently charge any premium for this coverage.

The Corporation participates in the North Dakota Workforce Safety and Insurance, (WSI) an Enterprise Fund of the State of North Dakota. WSI is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

Supplementary Information
June 30, 2013 and 2012

North Dakota Development Fund, Inc.

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	2013	2012
Assets						
Current Assets						
Cash and cash equivalents	$ 7,389,057	$ 5,909,587	$ 360,126	$ 951,681	$ 14,610,451	$ 11,703,160
Interest receivable on deposits and loans	40,874	16,342	-	-	57,216	70,007
Investments	-	-	-	-	-	1,000,966
Current portion of loans receivable	3,333,066	686,290	131,050	-	4,150,406	3,067,149
Intercompany receivable (payable)	(12,119)	12,119	-	-	-	-
Total current assets	10,750,878	6,624,338	491,176	951,681	18,818,073	15,841,282
Noncurrent Assets						
Loans receivable, net of current portion	4,413,055	1,872,605	288,233	-	6,573,893	9,382,144
Equipment, net	18,006	-	-	-	18,006	-
Total noncurrent assets	4,431,061	1,872,605	288,233	-	6,591,899	9,382,144
Total assets	$ 15,181,939	$ 8,496,943	$ 779,409	$ 951,681	$ 25,409,972	$ 25,223,426
Liabilities and Net Position						
Current Liabilities						
Accrued expenses	$ 13,653	$ -	$ -	$ -	$ 13,653	$ 13,653
Due to state	-	-	1,250,000	-	1,250,000	1,250,000
Total liabilities	13,653	-	1,250,000	-	1,263,653	1,263,653
Net Position						
Invested in capital assets, net of related debt	18,006	-	-	-	18,006	-
Unrestricted	15,150,280	8,496,943	(470,591)	951,681	24,128,313	23,959,773
Total net position	15,168,286	8,496,943	(470,591)	951,681	24,146,319	23,959,773
Total liabilities and net position	$ 15,181,939	$ 8,496,943	$ 779,409	$ 951,681	$ 25,409,972	$ 25,223,426

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	2013	2012
Operating Revenues						
Interest income on loans	$ 523,072	$ 92,015	$ 15,356	$ -	$ 630,443	$ 584,339
Dividend income	3,025	37,599	-	-	40,624	162,738
Gain on sale of investment	10,330	-	-	-	10,330	8,214
Other	46,539	5,368	1,415	-	53,322	79,801
	582,966	134,982	16,771	-	734,719	835,092
Operating Expenses						
General and administrative	420,663	-	-	-	420,663	420,867
Depreciation expense	2,378	-	-	-	2,378	-
Bad debt expense	219,076	(215,117)	80,856	50,000	134,815	648,850
	642,117	(215,117)	80,856	50,000	557,856	1,069,717
Operating (Loss) Income	(59,151)	350,099	(64,085)	(50,000)	176,863	(234,625)
Nonoperating Revenue (Expense)						
Interest income on deposits and investments	4,678	3,922	368	715	9,683	52,304
State appropriations	-	-	-	-	-	1,000,000
	4,678	3,922	368	715	9,683	1,052,304
Change in Net Assets	(54,473)	354,021	(63,717)	(49,285)	186,546	817,679
Net Assets, Beginning of Year	15,222,759	8,142,922	(406,874)	1,000,966	23,959,773	23,142,094
Net Assets, End of Year	$ 15,168,286	$ 8,496,943	$ (470,591)	$ 951,681	$ 24,146,319	$ 23,959,773

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	2013	2012
Operating Activities						
Other receipts (payments)	$ 77,114	$ (1,522)	$ 1,416	$ -	$ 77,008	$ 226,504
Payments to suppliers	(420,663)	-	-	-	(420,663)	(420,867)
Net Cash (used for) Provided by Operating Activities	(343,549)	(1,522)	1,416	-	(343,655)	(194,363)
Non-Capital Financing Activities						
Proceeds from state appropriations	-	-	-	-	-	1,000,000
Net Cash (used for) Provided by Non-Capital Financing Activities	-	-	-	-	-	1,000,000
Investing Activities						
Interest and dividends received	524,499	149,578	15,724	715	690,516	672,985
Purchase of equipment	(20,384)	-	-	-	(20,384)	-
Purchase of equity investments	(210,330)	-	-	-	(210,330)	(991,668)
Proceeds from the sale of equity investments	(25,449)	35,384	-	-	9,935	617,218
Purchase of investments	-	-	-	-	-	(1,000,966)
Sale of investments	-	-	-	1,000,966	1,000,966	9,228,286
Disbursements of business loans	(1,475,000)	(256,500)	(248,000)	(50,000)	(2,029,500)	(7,110,816)
Principal received on business loans	2,691,975	1,020,201	97,568	-	3,809,744	4,832,119
Net Cash (used for) Provided by Investing Activities	1,485,311	948,663	(134,708)	951,681	3,250,947	6,247,158
Net Change in Cash and Cash Equivalents	1,141,762	947,141	(133,292)	951,681	2,907,292	7,052,795
Cash and Cash Equivalents at Beginning of Year	6,247,295	4,962,446	493,418	-	11,703,159	4,650,365
Cash and Cash Equivalents at End of Year	$ 7,389,057	$ 5,909,587	$ 360,126	$ 951,681	$ 14,610,451	$ 11,703,160

North Dakota Development Fund, Inc.

Combining Statements of Cash Flows

Years Ended June 30, 2013 and 2012

	Development Fund	Regional Rural Development Revolving Loan Fund	Child Care Fund	Small Business Technology	2013	2012
Reconciliation of Operating Gain (Loss) to Net Cash used in Operating Activities						
Operating gain (loss)	$ (59,151)	$ 350,099	$ (64,085)	$ (50,000)	$ 176,863	$ (234,625)
Adjustments to reconcile operating (loss) gain to net cash from operating activities						
Gain on sale of investment	10,330	-	-	-	10,330	-
Depreciation	2,378	-	-	-	2,378	-
Change in intercompany receivable (payable)	6,890	(6,890)	-	-	-	-
Gain on sale of investment	-	-	-	-	-	8,214
Allowance for doubtful loan receivables	(6,373)	(179,733)	80,857	50,000	(55,249)	274,400
Allowance for realized loss on investments	225,449	(35,384)	-	-	190,065	374,450
Reclassification of interest and dividend income	(523,072)	(129,614)	(15,356)	-	(668,042)	(616,802)
Net Cash (used in) Provided by Operating Activities	$ (343,549)	$ (1,522)	$ 1,416	$ -	$ (343,655)	$ (194,363)
Supplemental Schedule of Noncash Activities						
Loan receivable written off	$ 121,829	$ 5,043	$ 68,285	$ -	$ 195,157	$ 280,547
Equity investments written off	250,000		-	-	250,000	662,324

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Specific Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee

Governor of North Dakota
The Legislative Assembly

Board of Directors
North Dakota Development Fund
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee require that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses regarding the June 30, 2013 audit of the North Dakota Development Fund, Inc. (the Corporation) are as follows:

Audit Report Communications:

1. What type of opinion was issued on the financial statements?

   Unmodified

2. Was there compliance with statutes, laws, rules, and regulations under which the agency was created and functioning?

   Yes.

3. Was internal control adequate and functioning effectively?

   Yes, except for the finding noted on the "Schedule of Findings and Responses" on page 31.

4. Were there indications of lack of efficiency in financial operations and management of the agency?

   No.

5. Has action been taken on findings and recommendations included in prior audit reports?

   No, please see the finding noted on the "Schedule of Findings and Responses" on page 31.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

   We issued a separate letter with items required to be communicated to those charged with governance.

Audit Committee Communication:

1. Identify any significant changes in accounting policies, any management conflicts of interest, and contingent liabilities, or any significant unusual transactions?

   None.

2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of those estimates?

   The most sensitive estimates affecting the financial statements include the allowance for uncollectible loans receivable and valuation allowance for equity investments.

   The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

   Among the factors considered in determining whether an other than temporary impairment of an investment has occurred are the cost of the investment, development since the acquisition of the investment, the financial condition and operating results of the issuer, the long-term potential of the business of the issuer, and other factors generally pertinent to the valuation of investments. The Development Fund has relied on financial data of investees and, in many instances, on estimates by the management company and of the investee company as to the potential effect of future developments.

   Our opinion on the reasonableness of these estimates is based on the testing performed during our audit procedures. Our procedures included assessing the risk assigned by the Development Fund to the loans and equity investments, evaluation of the past history of these amounts, discussion with management, and review of recent information regarding the loans and investments.

3. Identify any significant audit adjustments.

   None.

4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to a financial accounting, reporting, or auditing matter that could be significant to the financial statements.

   None.

5. Identify any serious difficulties encountered in performing the audit.

   None.

6. Identify any major issues discussed with management prior to retention.

   None.

7. Identify any management consultations with other accountants about auditing and accounting matters.

   None.

8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions to be addressed by auditors are directly related to the operations of an information technology system.

   The Corporation uses SPARAK for its accounting and operations. We noted no internal control issues or exceptions related to the information system used by the Corporation.

This report is intended solely for the information and use of the Legislative Audit and Fiscal Review Committee, North Dakota Development Fund, Inc. Board of Directors and other state officials and legislative committees and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Bismarck, North Dakota
November 1, 2013

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Governor of North Dakota
The Legislative Assembly

Board of Directors
North Dakota Development Fund, Inc.
Bismarck, North Dakota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of North Dakota Development Fund, Inc. as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise North Dakota Development Fund, Inc.'s basic financial statements, and have issued our report thereon dated November 1, 2013.

Internal Control over Financial Reporting
In planning and performing our audit of the financial statements, we considered North Dakota Development Fund, Inc. 's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of North Dakota Development Fund, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of North Dakota Development Fund, Inc.'s internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not yet been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings as finding 2013-01 that we consider to be a significant deficiency.

Compliance and Other Matters
As part of obtaining reasonable assurance about whether North Dakota Development Fund, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

North Dakota Development Fund, Inc.'s Response to the Finding
North Dakota Development Fund, Inc.'s response to finding identified in our audit is described in the accompanying schedule of findings. North Dakota Development Fund, Inc.’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report
The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity’s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eide Bailly LLP

Bismarck, North Dakota
November 1, 2013

2013-01 - Preparation of Financial Statements

Criteria: Proper controls over financial reporting include the ability to prepare financial statements and accompanying notes to the financial statements that are materially correct.

Condition: The Development Fund does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Cause: The control deficiency could result in a misstatement to the presentation of the financial statements.

Effect: Inadequate controls over financial reporting of the Development Fund result in the more than remote likelihood that the Development Fund would not be able to draft the financial statements and accompanying notes to the financial statements that are materially correct without the assistance of the auditors.

Recommendations: While we recognize that this condition is not unusual for an organization your size, it is important that you be aware of this condition for financial reporting purposes. Management and the Board should continually be aware of the financial reporting of the Development Fund and changes in reporting requirements.

Response: Since it is not cost-effective for an organization our size to have staff to prepare audit-ready financial statements, we have chosen to hire Eide Bailly, a public accounting firm, to prepare the audit financial statements as part of their annual audit of North Dakota Development Fund.